

FISCAL NOTE

Bill #: SB0120

Title: Allow contracted services for school personnel

Primary Sponsor: Glaser, B

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Expenditures:		
Other – Pension Trust	\$45,000	unknown
Revenue:		
Other – Pension Trust	unknown	unknown
Net Impact on General Fund Balance:	\$0	\$0

- | | |
|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. Teachers, principals and district superintendents as defined in 20-1-101, MCA, who are employed by Montana public schools through a private entity would no longer be required to participate in the Teachers' Retirement System (TRS).
2. Retired teachers, principals and district superintendents as defined in 20-1-101, MCA, who are re-employed by Montana public schools through a private entity would no longer be subject to the earning and employment limits on working after retirement found in 19-20-804, MCA.
3. It is not possible to estimate the cost of this proposal on the TRS because the number of new teachers, principals or district superintendents, and/or retired teachers, principals or district superintendents who would be employed under a contract with a private entity and no longer contributing to the TRS is not known.
4. If a large number of schools hire teachers, principals and district superintendents through a private entity significantly decreasing the number of members contributing to the TRS and/or increasing the number of retirees receiving benefits, the TRS would no longer be actuarial funded as required by the Montana constitution, Article VIII, Section 15, requiring schools or the state to contribute more to the TRS.
5. An actuarial study would be required to adequately evaluate the cost of this proposal. An actuarial study would take between 3 and 4 months to complete and the cost would not exceed \$30,000.

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6. It would be necessary to request an IRS Private Letter Ruling to verify that the changes do not impact the qualified status of the TRS. The cost to request a Private Letter Ruling would not exceed \$15,000.

FISCAL IMPACT:

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
<u>Expenditures:</u>		
Operating Expenses	\$45,000	\$0
Benefits	unknown	unknown
<u>Funding of Expenditures:</u>		
Other – Pension Trust	\$45,000	unknown
<u>Revenues:</u>		
Other – Pension Trust	unknown	unknown
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>		
Other – Pension Trust	(\$45,000)	unknown

LONG-RANGE IMPACTS:

The proposal would impact the funding of the TRS if members retire earlier than currently experienced, resulting in benefits paid over a longer period of time, and lower contributions if teachers and administrators are hired through a private entity, leaving fewer teachers and administrators participating in TRS. Paying benefits sooner than currently assumed and collecting fewer contributions will result in fewer dollars to invest and lower investment income.

The Montana Constitution, Article VIII, Section 15, requires that public retirement systems must be funded on an actuarially sound basis, therefore, if the impact of this proposal resulted in the system becoming actuarially unsound, the legislature would be faced with funding the shortfall in a future session.

TECHNICAL NOTES:

SB120 defines “employee” in Title 20 to specifically exclude teachers, specialists and administrators who contract with a private entity employing personnel required by the district. Assuming school districts will retain the right to control these individuals as to the services performed and their manner of performance, the new Title 20 definition of “employee” will conflict with the definition in 15-30-201(3) and in IRS regulations. It’s not clear whether the Title 15 or the Title 20 definition of “employee” will apply when that term is used in Title 19 to require active membership in the Teachers Retirement system. In other words, it is unclear if TRS retirees re-employed by a school district through a private entity would be subject to the earnings and employment limits under 19-20-804, MCA.